Comment on 'Unions and labour market institutions in Europe'

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arguments for state-provided unemployment insurance, and simplification of tax rules may be preferable on these grounds to the provision of tax advising by the unions.

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Differences in unemployment rates across countries are often explained by differences in union density or union coverage and other labour market institutions. In their overview of the relationship between labour market institutions and labour market performance, Nickell and Layard (1999) conclude that worrying about strict labour market regulations, employment protection, and minimum wages is probably a waste of time: in order to bring unemployment down the policy focus should be on social security systems and on unions, which have a 'bad' effect on labour markets because they engage in inefficient rent extraction. Social security benefit reforms should foster active labour market policies to move people from welfare to work, while the influence of unions can be reduced by encouraging product market competition.

The paper by Checchi and Lucifora presents a mirror image where differences in union density are explained by differences in institutions and unemployment rates. The authors entertain the possibility that unions are 'good' as providers of insurance against labour market risks. Their paper is a pleasure to read, their analysis of the relationship between unions and labour market institutions is interesting, and the empirical work is neatly done with a lot of sensitivity analyses and robustness checks. Their main claim is that unions and certain labour market institutions (like employment protection legislation, wage indexation and statutory minimum wages) are substitutes, in the sense that strict regulations crowd out unions. My main comments concern some peculiarities of the analysis.

One of the conclusions of the paper is that there is no generalized downward trend in union density in Europe. As Table 2 shows, it is true that since the late 1970s there are five countries that have experienced an increase in union density, while in eight countries union density went down. However, this dichotomy is largely due to the difference between Ghent and non-Ghent countries. Density went up in all 'Ghent' countries, where unemployment benefit schemes are administered by unions. In all non-Ghent countries, except Norway, union density went down. Now, in the Ghent countries union membership is determined more by institutional rules than by economic factors. Therefore, one could conclude that in almost all countries in which unions behave like an economic agent union density went down over the past decades. And, empirically, it is not clear that both types of countries can be treated in the same way.

Checchi and Lucifora use their results to present some simulations. They show that if the Netherlands had Swedish institutions their union density would go up from 33% to 68%, while if the Swedes had Dutch institutions their union density would go down from 75% to 37%. The exercise is nice, and shows that institutions can make a lot of difference to unionization. But the results are hard to believe: the simulation experiment does not entail particularly dramatic institutional changes (since the Dutch and Swedish labour market structure is more similar than that of many other pairs of countries), yet union density in the Netherlands would be at its all time high, and union density in Sweden would be at an unprecedented low. Maybe the result is driven by the Ghent non-Ghent difference. However, whether a country has a Ghent system or not is not what I would call a major difference in institution. It is merely a difference in set-up of unemployment benefit administration, on the basis of which one would hardly except any influence on the functioning of the labour market.

One of the main points in the paper is that union activity and institutional government interventions interact, because both have a risk-reducing role. Hence, institutional change can have a negative effect on union density, and for example if unions succeed in achieving strict firing regulations they would also create a disincentive for workers to join unions. If this were correct it would imply that there is a hump-shape relationship between worker power (through unions) and union density. If unions don't have a lot of influence, union density will be low because workers do not have an incentive to joint unions. If workers (through unions) have a lot of political influence, they will manage to get strict labour market regulations, and again union density will be low. Only in the intermediate range union density will be high, and low union density can be an indicator of both weak and strong worker power. In this respect there is a clear analogy with the non-linear influence of the level of wage bargaining (Calmfors and Driffill, 1988), and cross-country unemployment differences should be explained by a composite variable consisting of both union density and other labour market institutions.

From a broader perspective the question is whether the paper is just informative about unions and in particular the determinants of unionization or whether there is a broader perspective. The evidence on the role of institutions is largely consistent with the 'good' view of unions, but does the study change the perspective of unions as 'bad'? I don't think so. The study shows that the influence of unions can be reduced if regulations concerning employment protection are introduced. However, it does not address the issue of whether unions are relevant when it comes to the determination of unemployment, hence cannot quite change one's view on that issue.

Panel discussion

Responding to Tito Boeri's discussion, the authors mentioned that coverage measures are not available for the whole sample. Thierry Verdier pointed out that aggregate union density hides important within-country variation, because unions are particularly concentrated in certain sectors, and that labour market institutions and union density are jointly determined, especially in the long time span analysed in the paper.